
Economics of Crime

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Abstract

This paper starts with a review the economics of criminal behavior. Then, the authors discuss the theory of public enforcement. The economic analysis of criminal behavior and criminal law has been a hugely successful enterprise. As an academic enterprise, it has achieved the goal of research—it has generated a large and growing literature. More important than academic success, however, has been the influence of this branch of learning on actual practice. The understanding of deterrence effects and rational responses by criminals has substantially changed the purpose and functioning of the criminal justice system.

Contents

1	Introduction	1
2	The Economics of Criminal Behavior	3
2.1	The Basic Model	3
2.2	Extensions of the Basic Model	5
2.3	The Benefits and Costs of Crime	10
2.4	Are Criminals Really Rational?	12
2.5	Empirical Studies	14
2.6	Methodologic Problems and Criticism	28
2.7	The Case of Capital Punishment	34
2.8	Guns and Abortions	41
3	The Economics of Public Criminal Law Enforcement	43
3.1	Probability and Severity	44
3.2	Fines and Imprisonment	46
3.3	Risk Preferences	46
3.4	Imperfect Information	48
3.5	Targeted and General Enforcement	50
3.6	Repeat Offenders	51
3.7	Enforcement Errors	53
3.8	Reductions in Enforcement Costs	54
3.9	Incentives of Enforcers	54

4 Conclusion	57
Acknowledgements	59
References	61

1

Introduction

During the past 40 years, beginning with the work of Becker (1968) economists have invaded the field of criminology, using their all-embracing model of individual rational behavior. In this model, a criminal act is preferred and chosen if the total payoff, including the expected cost of sanctions and other costs, is higher than that of legal alternatives. The theory of deterrence thus obtained is regarded as a special case of the general theory of rational behavior under uncertainty. Assuming that individual preferences are constant, the model can be used to predict how changes in the probability and severity of sanctions and in various socio-economic factors may affect the amount of crime. Even if most of those who violate certain laws differ systematically from those who abide by the same laws, the former, like the latter, do respond to incentives (i.e., to sanctions and economic conditions). Empirical tests with increasing statistic rigor and refinement have been carried out on the basis of this theory.

Whereas the general preventive effects of sanctions for a long time have occupied a main position in penal legislation and sentencing policy, such effects were almost totally neglected in criminology and modern sociology until the late 1960s. Criminologists have been more

2 *Introduction*

interested in rehabilitation and treatment, and many are still reluctant to accept studies of deterrence in general and models of criminal behavior based on rational choice in particular. However, scholars who are reluctant to accept the assumption of rational choice still find interest in the rather rigorous empirical studies in the economics of crime literature (Andenæs, 1975), and sociologists have in recent years been inspired to carry out similar research.

Models of criminal behavior in which a person is assumed to act rationally on the basis of costs and benefits of legal and illegal opportunities are presented. Many of these models are similar to models of portfolio choice or of supply of labor. The empirical studies that are surveyed use various types of regression analyses and employ data from states and police regions down to campuses and individuals. Most studies corroborate the hypothesis that the probability of punishment, and to a lesser degree also the severity of punishment, has a deterrent effect on crime. The effects of various economic factors are less clear, although unemployment seems to increase crime. Methodologic problems relating to the assumption of rationality, to statistic identification of equations, to measurement errors, and to operationalization of theoretic variables are discussed.

In what follows, we first discuss the economics of criminal behavior. We next discuss the theory of public enforcement. We omit some topics. In particular, we do not discuss corporate crime, organized crime, and criminal procedure. Each of these is worthy of a separate essay; here we discuss the basic model of criminal behavior and of law enforcement.

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